

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7058

BILL NUMBER: HB 1337

NOTE PREPARED: Jan 29, 2004

BILL AMENDED:

SUBJECT: Nonparticipating Cigarette Manufacturer Fee.

FIRST AUTHOR: Rep. Pelath

FIRST SPONSOR:

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill imposes a \$0.025 fee on each cigarette sold by a manufacturer that does not participate in the Master Settlement Agreement (MSA). The bill deposits revenue generated by the fee into the state General Fund. The bill requires a nonparticipating manufacturer that does not sell cigarettes in Indiana to prepay the fee before selling cigarettes in Indiana. The bill requires a distributor of nonparticipating manufacturer cigarettes to report certain information to the Department of State Revenue.

Effective Date: July 1, 2004.

Explanation of State Expenditures: This bill requires the Department of State Revenue to develop rules and procedures related to the imposition and collection of the Nonparticipating Cigarette Manufacturer Fee. In addition to developing rules and procedures related to the fee, the Department is required to receive reports from cigarette distributors on the number and type of cigarettes produced by nonparticipating manufacturers that have been stamped and delivered to Indiana retailers. The Department could presumably cover the additional administrative costs using existing staff and resources.

Explanation of State Revenues: (Revised) The \$0.025 fee on each cigarette (\$0.50/pack) sold by manufacturers that do not participate in the Master Settlement Agreement is estimated to generate between \$11.4M and \$22.8M in FY 2005 and \$12.7M and \$25.2M in FY 2006. Fee revenue would be deposited in the state General Fund. Due to the timing of the remittance of the fee, the estimate above includes collections from 11 of the 12 months that the fee is in effect.

This revenue estimate is based on the January 12, 2004, *State Revenue Forecast* and assumes that the affected cigarette brands account for 5% to 10% of the Indiana cigarette market.

[This note will be updated if more detailed information on the market share of cigarettes sold by nonparticipating manufacturers in the Indiana market becomes available.]

Prior to selling cigarettes in Indiana, a nonparticipating manufacturer must pay the state the greater of \$50,000 or \$0.025 per cigarette multiplied by the number of cigarettes the Department estimates that the manufacturer will sell in Indiana in the first month. Revenue from this first month of fee revenue will also be deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: January 12, 2004, *State Revenue Forecast*.

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